

Information Request DTE 1-2:

In reviewing options, did the Company consider a citygate delivered supply? If yes, please describe the analysis conducted by the Company. If no, please explain why a citygate delivered supply was not considered.

Response:

The Company did consider procuring a delivered, citygate supply in order to meet its resource requirements. However, the price of such supplies during the winter season, as reflected in historical and future basis differentials and index comparisons for New England citygates, were higher than the market area storage alternative. The citygate supply alternative would also have subjected the Company and its customers to the seasonal commodity pricing volatility that has been seen in the New England region in the last several years when supplies become constrained during the winter season, whereas storage gas is purchased during the summer season when commodity prices are less volatile and are usually lower.

Storage capacity also has operational benefits to the Company due to its flexibility. Because storage can be nominated and scheduled on an intra-month and intra-day basis, storage is used by the Company to manage load swings caused by weather or temperature variations. Citygate supplies would typically be purchased and baseloaded and would have limited swing rights. This is becoming increasingly important to the Company as interstate pipelines are beginning to implement daily cashouts and daily balancing with penalties. For example, Tennessee is currently scheduled to implement a daily cashout on September 1, 2003. Accordingly, although the Company considered citygate supply, it determined ultimately that the National Fuel storage represented the most cost-effective option available to the Company to meet its identified need.